

Message Text

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PAGE 01 ISLAMA 01935 01 OF 02 261320Z
ACTION NEA-10

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-03 INR-10 NSAE-00 USIA-06 TRSE-00 XMB-02
OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15
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FM AMEMBASSY ISLAMABAD
TO SECSTATE WASHDC 6031
INFO AMEMBASSY ABU DHABI
AMEMBASSY DACCA
AMEMBASSY DOHA
AMEMBASSY JIDDA
AMEMBASSY KABUL
AMEMBASSY KUWAIT
/AMEMBASSY LONDON 3069
AMEMBASSY MANAMA
AMEMBASSY MUSCAT
AMEMBASSY NEW DELHI
AMEMBASSY PARIS
AMEMBASSY TEHRAN
AMEMBASSY TRIPOLI

LIMITED OFFICIAL USE SECTION 1 OF 2 ISLAMABAD 1935

PARIS FOR OECD

E.O. 11652: N/A
TAGS: EFIN, PK
SUBJECT: EMIGRANT REMITTANCES

1. SUMMARY: A VERY LARGE NUMBER OF PAKISTANI WORKERS,
SOMETHING OVER 1 MILLION, ARE CURRENTLY WORKING ABROAD,
MAINLY IN THE GULF, REMITTING SUBSTANTIAL AND RAPIDLY
INCREASING SUMS BACK TO PAKISTAN. THIS HAS HAD A MARKED
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PAGE 02 ISLAMA 01935 01 OF 02 261320Z

FAVORABLE IMPACT ON PAKISTAN'S BALANCE OF PAYMENTS ALTHOUGH
OTHER EFFECTS ARE LESS CLEAR AND SEEM TO BE LARGELY
ADVERSE. A RECENT INTERNAL STUDY BY ONE OF THE
NATIONALIZED BANKS SUGGESTS THAT THE \$550 MILLION
OFFICIALLY REMITTED LAST YEAR (PROBABLY TO RISE TO
\$900 MILLION-\$1 BILLION THIS YEAR), IS ONLY A
FRACTION OF THE SURPLUS MONEY IN THE HANDS OF

PAKISTANI EMIGRANT WORKERS. WE REPORT THIS STUDY AS INTERESTING PIONEERING IN A LARGELY UNEXPLORED FIELD; WE CAUTION AGAINST UNCITICAL ACCEPTANCE OF ITS FINDINGS. END SUMMARY.

2. AMONG THE MORE STRIKING DEVELOPMENTS NOW AFFECTING THE PAKISTANI ECONOMY ARE THE GROWING REMITTANCES FROM PAKISTANIS WORKING ABROAD. WHILE PAKISTANIS HAVE LONG SOUGHT EMPLOYMENT ABROAD AND REMITTED SUBSTANTIAL AMOUNTS OF THEIR EARNINGS BACK TO THEIR FAMILIES, THE RECENT LABOR SHORTAGES IN THE NEARBY PETROLEUM EXPORTING COUNTRIES HAVE RESULTED IN A QUANTUM JUMP IN THE NUMBER OF PAKISTANI WORKERS ABROAD AND THE AMOUNT OF MONEY THEY REMIT. WHILE OTHER COUNTRIES IN THE AREA ALSO HAVE EXPORTED SUBSTANTIAL NUMBERS OF PEOPLE WHO REMIT PART OF WHAT THEY EARN BACK TO THEIR HOMELAND, PAKISTAN APPEARS TO HAVE TEMPORARILY EXPORTED A RELATIVELY LARGER PROPORTION OF ITS POPULATION THAN SOME OF ITS NEIGHBORS (PERHAPS AS MUCH AS 2 PERCENT) WITH THE RELATIVELY GREATEST IMPACT ON ITS OWN ECONOMY. EMIGRANT REMITTANCES THIS YEAR (\$900 MILLION-\$1 BILLION) WILL BE THREE-FOURTHS OR MORE OF TOTAL MERCHANDISE EXPORTS (\$1.3 -1.4 BILLION). AS RECENTLY AS PFY 75-76 , EMIGRANT REMITTANCES WERE LESS THAN \$350 MILLION.

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PAGE 03 ISLAMA 01935 01 OF 02 261320Z

3. OFTEN REFERRED TO AS THE ONE BRIGH SPOT IN THE PAKISTAN ECONOMIC SCENE, REMITTANCES HAVE PROVIDED BADLY-NEEDED IMMEDIATE SHORING UP OF THE BALANCE OF PAYMENTS. IN FACT, WITHOUT THE RAPID INCREASE IN THEM, IT IS DIFFICULT TO SEE HOW A DISASTROUS BALANCE OF PAYMENTS CRISIS OR A TRAGIC CUT IN DOMESTIC CONSUMPTION COULD HAVE BEEN AVOIDED. BEYOND THIS, THE EFFECTS OF A SIZEABLE EMIGRANT LABOR FORCE ARE STILL LITTLE KNOWN. BECAUSE THE PHENOMENON IS SO NEW AND LITTLE STUDIED, MOST OF THE KNOWLEDGE ABOUT ITS OTHER EFFECTS IS DEDUCTIVE AND IMPRESSIONISTIC.

4. THE RECORDED FIGURE FOR REMITTANCES UNDERSTATES THE ACTUAL AMOUNT FOR TWO REASONS. FIRST, IT DOES NOT INCLUDE CASH REMITTANCES THAT CIRCUMVENT THE BANKING SYSTE. THE AMOUNT OF THESE IS OF COURSE IMPOSSIBLE TO KNOW ACCURATELY. SOME PEOPLE CONSIDER IT TO BE A SIGNIFICANT LEAKAGE, ALTHOUGH THE BALANCE-OF-PAYMENTS' ACCOUNTANTS AT THE STATE BANK OF PAKISTAN TEND TO DOWNPLAY IT. WE ARE ALSO INCLINED TO DOUBT THAT IT IS A LARGE NUMBER RELATIVE TO THE RECORDED FLOW. FOR ONE THING, THE BLACK MARKET RATE FOR RUPEES IS CLOSE

TO THE OFFICAL RATE AND THERE IS NO APPARENT PARALLEL CURRENCY MARKET EXISTING IN PAKISTAN. THE SECOND CAUSE OF UNDERESTIMATION OF EMIGRANT REMITTANCES CONCERNS REMITTANCES IN KIND. THE RECORDED FIGURE INCLUDES BOTH CASH AND KIND REMITTANCES, BUT ONLY THOSE REMITTANCES IN KIND THAT PASS THROUGH CUSTOMS. WITH LIBERAL DUTY-FREE ALLOWANCES FOR RETURNING PAKISTANIS, LARGE AMOUNTS OF MERCHANDISE ENTER WITHOUT PAYMENT OF CUSTOMS DUTIES, INCLUDING MAINLY HOUSEHOLD APPLIANCES, RADIOS AND PHONOGRAPHS, TAPE RECORDERS AND TELEVISION SETS. THE BALANCE-OF-PAYMENTS ACCOUNTANTS TELL US THAT THEY ESTIMATE THAT FROM 5-10 PERCENT OF THE RECORDED FIGURE FOR REMITTANCES CONSISTS OF MERCHANDISE. THEY TELL US THAT WITH THE GROWING LIMITED OFFICIAL USE

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PAGE 04 ISLAMA 01935 01 OF 02 261320Z

IMPORTANCE OF EMIGRANT REMITTANCES THEY ARE CONSIDERING BREAKING DOWN REMITTANCES INTO CASH AND MERCHANDISE.

5. MOST OF THE EMIGRANT LABOR SEEMS TO COME FROM RURAL AREAS AND MOST OF THE REMITTANCES FLOW BACK TO SUCH AREAS. THE COMMON BELIEF IS THAT A GREAT DEAL OF IT IS USED TO PURCHASE AND/OR IMPROVE AGRICULTURAL LAND TO TO CONSTRUCT BUILDINGS. THIS HAS UNDOUBTEDLY CONTRIBUTED TO RAPIDLY INCREASING LAND PRICES IN SOME AREAS AND TO THE SEVERE BOTTLENECK IN PAKISTAN'S CONSTRUCTION INDUSTRY. OVERALL THE IMPACT ON INFLATION SEEMS TO BE SMALL, AS EVIDENCED BY A DECLINE IN THE RATE OF INFLATION AT THE TIME THAT REMITTANCES HAVE RISEN MOST RAPIDLY. ANY INCREASE IN THE TOTAL MONEY SUPPLY RESULTING FROM THE REMITTANCES IS EFFECTIVELY CONSTRAINED BY THE CREDIT CEILING IMPOSED ON THE BANKING SYSTEM BY THE IMF. FURTHERMORE, A SIGNIFICANT AMOUNT OF THE INFLOW IS ULTIMATELY USED TO FINANCE IMPORTS, AVOIDING THE CUT IN DOMESTIC CONSUMPTION REFERRED TO ABOVE. NONETHELESS, THE IMPACT ON PRICES IN INDIVIDUAL SECTORS SEEMS TO HAVE BEEN SIGNIFICANT.

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PAGE 01 ISLAMA 01935 02 OF 02 280157Z
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OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15
STR-07 CEA-01 DOE-11 SOE-02 L-03 H-01 /113 W
-----057279 281546Z /42 45

R 261130Z FEB 78
FM AMEMBASSY ISLAMABAD
TO SECSTATE WASHDC 6032
INFO AMEMBASSY ABU DHABI
AMEMBASSY DACCA
AMEMBASSY DOHA
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LIMITED OFFICIAL USE SECTION 2 OF 2 ISLAMABAD 1935

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6. THE MOST SERIOUS ADVERSE EFFECT ON THE SENDING
COUNTRY IS COMMONLY SAID TO BE THAT MOST OF THE RECENT
EMIGREES ARE SKILLED AND SEMI-SKILLED BLUE-COLLAR
WORKERS ATTRACTED BY WAGE LEVELS IN THE GULF THAT
SEEM TO BE TEN TIMES THE WAGE LEVELS FOR THE SAME
SKILLS IN PAKISTAN (THE FIGURE OF TEN RECURS IN
DISCUSSIONS OF THE MATTER IN ALL PARTS OF PAKISTAN
FOR ALL SORTS OF SKILLS, FROM COOK TO WELDERS). IT
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PAGE 02 ISLAMA 01935 02 OF 02 280157Z

IS, OF COURSE, MAINLY THESE BLUE-COLLAR SKILLS THAT
ARE IN SHORTEST SUPPLY IN COUNTRIES LIKE PAKISTAN.
(FOR THE MOMENT, THIS IS REQUIRING PAKISTAN TO STEP
UP ITS VOCATIONAL TRAINING EFFORTS TO KEEP ITS OWN
INDUSTRY RUNNING; IT IS ASSUMED THAT PAKISTAN WILL
LOSE A LARGE PART OF EACH BATCH OF TRAINEES TO THE
GULF.) ASSUMING THAT THESE BLUE-COLLAR WORKERS
ULTIMATELY COME HOME, PAKISTAN WILL WIND UP WITH A
SUBSTANTIAL POOL OF SKILLED LABOR ENRICHED BY THE
EXPERIENCE OF A DIFFERENT ENVIRONMENT. THIS WILL
CREATE ITS OWN SET OF OPPORTUNITIES AND PROBLEMS.
IN THE PAST MOST OF THOSE WHO HAVE RETURNED HAVE NOT

RE-ENTERED THE SKILLED LABOR MARKET. RATHER THEY USE THE MONEY EARNED ABROAD TO INVEST IN SMALL BUSINESSES AND FARMS, THEREBY FULFILLING A PAKISTANI PEASANT CLASS DREAM OF BECOMING MEMBERS OF THE LANDOWNING MERCHANT CLASS.

7. SOME LIGHT ON ONE ASPECT OF THE ISSUE WAS SHED IN A RECENT INTERNAL STUDY BY THE NATIONAL BANK OF PAKISTAN. WHILE NOT A PUBLIC DUCUMENT, EXCERPTS APPEARED IN THE KARACHI "BUSINESS RECORDER" AND IT HAS ALSO BEEN COMMENTED ON IN AN EDITORIAL IN THE "PAKISTAN TIMES". A CONGEN OFFICER TALKED TO THE AUTHOR OF THE REPORT, SENIOR VICE PRESIDENT OF THE NATIONAL BANK, MOHAMMAD AKRAM KHAN, AND OBTAINED THE RESULTS OF HIS RESEARCH. THE REMAINDER OF THIS MESSAGE IS BASED ON KARACHI'S REPORT TO US.

8. ESSENTIALLY, M.A. KHAN THINKS THAT THERE ARE AT LEAST 1.2 MILLION PAKISTANIS WORKING ABROAD, GEOGRAPHICALLY DISTRIBUTED AS FOLLOWS:

SAUDI ARABIA	550,000
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PAGE 03 ISLAMA 01935 02 OF 02 280157Z

KUWAIT	50,000	
OTHER MIDDLE EAST		250,000MMV
U.K.	250,000	
OTHER	100,000	
TOTAL	1,200,000.	

9. HE ASSUMES EACH ONE EARNS AN AVERAGE OF \$6,000 A YEAR FOR GROSS FOREIGN EXCHANGE EARNINGS OF \$7.2 BILLION. HE ASSUMES FURTHER THAT EACH ONE SPENDS 40 PERCENT OF HIS EARNINGS ON HIMSELF. THIS LOW LEVEL OF CONSUMPTION, HE CLAIMS IS BECAUSE MOST OF THEM ARE LIVING ALONE APART FROM THEIR FAMILIES IN PAKISTAN AND WHILE WORKING ABROAD THEY LIVE IN GROUPS TO SAVE ON EXPENSES FOR ACCOMMODATIONS AND FOOD. (ALSO MOST CONTRACTS CALL FOR THE EMPLOYER TO PROVIDE ROOM AND BOARD TO ITS EMPLOYEES.)

10. FROM THE FOREGOING KHAN CONCLUDES THAT WHILE ONLY \$550 MILLION HAS BEEN REMITTED TO PAKISTAN THROUGH THE BANKS IN 1976/77, POTENTIAL REMITTANCES COULD BE AS MUCH AS 60 PERCENT OF EARNINGS OR \$4.4 BILLION. HE DOESN'T EXPECT TO BE ABLE TO ATTRACT BACK TO PAKISTAN ALL THE PRESUMED SURPLUS, BUT DOES THINK IT REASONABLE TO AIM FOR HALF OF IT, \$2.2 BILLION. (IF ACHIEVED, THIS WOULD HAVE DRAMATIC EFFECTS ON THE BALANCE OF PAYMENTS.)

11. MR. KHAN HAS SOME IDEAS ABOUT HOW SOME OF THIS MONEY MIGHT BE ATTRACTED. HE SUGGESTS THAT BANKING CHANNELS SHOULD BE MADE MORE EFFICIENT AND LESS TIME CONSUMING AND THAT OVERSEAS PAKISTANI WORKERS BE GIVEN AN OPTION TO REMIT 30 PERCENT OF THEIR EARNINGS IN THE FORM OF DUTY FREE PERSONAL BAGGAGE IMPORTS OF CERTAIN ITEMS WHICH SHOULD BE BASED ON NATIONAL PRIORITIES, E.G. , TRACTORS, CARS, TRUCKS, GENERAL MACHINERY, ETC. IN ADDITION TO MAKING IMPORTS DUTY-LIMITED OFFICIAL USE

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PAGE 04 ISLAMA 01935 02 OF 02 280157Z

FREE FOR OVERSEAS PAKISTANI WORKERS, THE CUSTOMS CLEARANCE AND OTHER FORMALITIES SHOULD BE SIMPLIFIED AND THE WORKER SHOULD BE ABLE TO CLEAR THEM PROMPTLY. THE WORKERS WOULD RESELL THE ITEMS AT A PROFIT. TO A LARGE EXTENT THESE IMPORTS WOULD SUBSTITUTE FOR IMPORTS MADE WITH FOREIGN EXCHANGE. (WHETHER INFLUENCED BY KHAN OR NOT, THE GOP HAS ANNOUNCED A SCHEME WHEREBY RETURNING EXPATRIATES CAN IMPORT USED BUSES DUTY FREE.)

12. COMMENT: WE REPORT KHAN'S STUDY AS A CONTRIBUTION TO UNDERSTANDING IN THIS COMPLEX AREA. WE CAUTION AGAINST UNCRITICAL ACCEPTANCE OF IT. WE HAVE DISCUSSED KHAN'S IDEAS WITH KNOWLEDGEABLE PAKISTANIS, INCLUDING OFFICIALS OF THE FINANCE MINISTRY, WHO FIND IT, AS WE DO, AN INTRIGUING INTELLECTUAL EXERCISE AND A CONTRI-

BUTION TO UNDERSTANDING OF THE EMIGRANT LABOR PHENOMENON. HIS NUMBERS OF WORKERS ABROAD ARE WITHIN THE NORMALLY ACCEPTED RANGE BUT HIS MONETARY NUMBERS AND ASSUMPTIONS HAVE A WIDE RANGE OF POSSIBLE ERROR AND HIS STUDY CANNOT BE TREATED AS AUTHORITATIVE.
HUMMEL

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Message Attributes

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Draft Date: 26 feb 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
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Format: TEL
From: ISLAMABAD
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780211/aaaaajky.tel
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Secure: OPEN
Status: NATIVE
Subject: EMIGRANT REMITTANCES
TAGS: EFIN, PK
To: STATE
Type: TE
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